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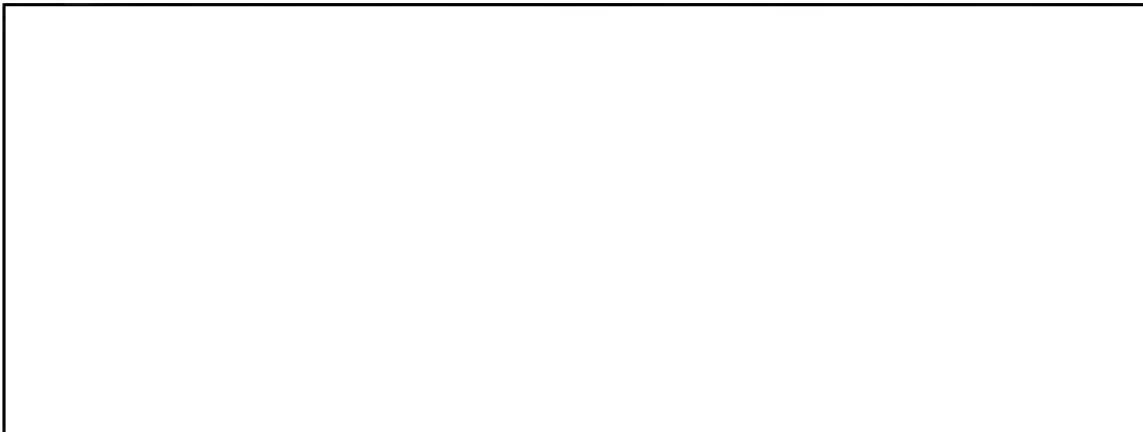
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THE FORMOSA STRAITS



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GENERAL**1. Comment on Soviet declaration on Austria:**

Ambassador Bohlen characterized the statement on Austria which was read by Molotov to American, British, and French representatives in Moscow on 9 April as "atmospheric preparation" for Chancellor Raab's visit. The statement contained no new proposals for

an Austrian settlement nor any specific reference to a four-power conference. Its principal purpose apparently was to forestall any Western charge that the USSR was attempting to go behind the backs of the three Western powers.

The declaration asserted that these talks will "assist in advancing" an Austrian settlement and noted that the Soviet-Austrian exchange of views preceding the trip showed there are "possibilities for speeding up" an agreement "between the four powers and Austria."

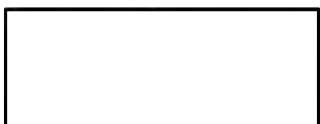
There are several indications that the USSR hopes to use the discussions with the Austrian leaders as bait for a four-power foreign ministers' conference. The Soviet minister in Vienna expressed disappointment to the American ambassador on 6 April that the Western statement on the Raab visit did not welcome such a conference and declared that all the Soviet government wants is a four-power guarantee of Austria's independence and integrity.

Moscow Radio on 6 April suggested that the Western powers could hardly ignore it if Austria should demand a four-power meeting and that "steps be taken on the German problem to protect Austria." This suggests that the USSR is still trying to ensure that an Austrian settlement will include "corresponding and agreed measures by the four powers on the German question," as Molotov insisted in his 8 February speech.

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FAR EAST

2. Hatoyama pleads for lower Japanese defense costs:

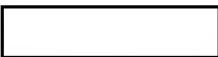


Prime Minister Hatoyama told American officials in Tokyo on 7 April that his government would probably fall unless the United States agreed to reductions in

Japan's contribution to the support of American security forces. He asserted if the United States failed to do so, it would be impossible to get the 1955-56 budget through the Diet which reconvenes on 15 April.



Comment:

 the opposition Liberals will not join with the Socialists to bring down the government over the budget, since they are in no position to undertake another costly election campaign. They may, however, harass the government over the budget issue and join with the Socialists in individual nonconfidence motions against certain cabinet ministers including Foreign Minister Shigemitsu.

Hatoyama is in effect asking the United States to finance social benefits which he promised during his campaign by accepting a reduction in support contributions. The United States has insisted that any reduction must be accompanied by an effective increase in Japan's own defense effort.

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NEAR EAST - AFRICA

3. Israeli prime minister seen given "last chance" for peaceful settlement on Gaza border:



American ambassador Lawson believes that the Israeli cabinet has given Prime Minister Sharett a last chance to achieve a peaceful settlement with Egypt by means

of his current efforts to obtain a high-level meeting with Cairo officials or by a UN Security Council condemnation against Egypt. Lawson gained the impression from his conversation with Sharett on 4 April that if these efforts fail, Israeli military operations may be used to settle what Tel Aviv considers an "intolerable" situation along the Egyptian border.

Lawson reports that current official and popular feeling in Israel would support military action on the grounds that if there has to be a second round it would be better now than later, when the military power of the Arab states has increased.

WESTERN EUROPE

4. Gaullist control of French defense matters expected to hamper American base program:



Ambassador Dillon in Paris foresees a more troublesome attitude than has yet been encountered in dealing with France on military installations, because French national defense matters have been taken over by Gaullists who will be "a tough team to deal with."

A Foreign Ministry spokesman told Dillon his government believes the United States is "moving in" on the French position in North Africa by expanding its bases there. He added that no French government would permit "foreign meddling" in that area, and that the large majority of Frenchmen consider the presence of United States troops as the first step toward such "meddling" and possible loss of French face.

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Comment: Many Frenchmen are convinced that France has been forced to swallow American objectives in approving German rearmament, and they can be expected to seek to limit the size and activity of United States bases in France and North Africa. They will also continue to demand American political support against North African nationalist aspirations.

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THE FORMOSA STRAITS

Report of the IAC Current Intelligence Group for the Formosa Straits Problem

This report is based on information received in Washington up to 1100 hours 9 April 1955.

1. No significant activity has been reported. Bad weather continues.

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